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THE TREASURY RESERVE AND THE BOND SYNDICATE.

THE undertaking known as the "bond-syndicate contract" with the United States government was the most interesting financial episode of 1895. Politically and commercially, its results were and still are far-reaching. Economically, it was so remarkable an experiment, so absolute a departure from the beaten track of precedent, that it merits particularly thorough examination. To such examination it is my purpose to subject the episode. I shall take nothing for granted, shall admit no statement of fact unless from the first authority, and shall use no logic which prejudice, economic or political, can reject.

The experiment of 1895, however, can neither be understood nor properly criticised until the situation which made it possible has been investigated. This is no slight pre-requisite; for it involves the financial history of our government since resumption, and that history has not yet been written.[1] The facts must be gathered from the trade reports, the market quotations, the executive documents and the Congressional proceedings of the last seventeen years. I shall undertake, however, to sketch concisely the essential incidents of this very interesting period, and to discuss in detail several episodes which bear directly on our subject.

I.

The first questions to answer are: How comes our government to be issuing bonds in time of peace? And by what authority is such issue left to executive discretion?

On the 14th of July, 1870, was approved a law for the refunding of the national debt. It authorized, purely for retirement of older high-rate bonds, new bond issues of various

[1] The last volume of Mr. Bolles's excellent work carries the history only to 1879.

classes, not in the aggregate to exceed $1,500,000,000.[1] Five years later, in January, 1875, a further statute was enacted providing for redemption of government notes in coin on and after January 1, 1879. The concluding paragraph of this statute may profitably be cited here in full:

> And to enable the Secretary of the Treasury to prepare and provide for the redemption in this act authorized or required, he is authorized to use any surplus revenues, from time to time, in the Treasury not otherwise appropriated, and to issue, sell, and dispose of, at not less than par in coin, either of the descriptions of bonds of the United States described in the Act of Congress approved July 14, 1870.[2]

This paragraph is clear in terms, and it was clearly discussed and understood before adoption. Additional bond sales, it will be observed, are authorized to enable the secretary "to prepare and provide," not alone for resumption at a stated date, but for redemption "from time to time" of all outstanding notes tendered for coin. The distinction is important, chiefly because of a notion prevalent in some minds that the "bond clause" of the statute was not designed to operate after January 1, 1879. Such an idea has as little basis in the language of the act as it has in common sense. So long as redemption of outstanding notes should continue to be a statutory requirement, and any notes remained outstanding, the framers of the law were perfectly well aware that provision for such redemption, with everything therein legally involved, must continue to be the secretary's duty. And that there might be no misunderstanding as to the condition, Congress in 1878 voted that all notes then outstanding should, when redeemed, be continuously reissued by the Treasury. When reissued, they necessarily became again redeemable under the Act of 1875.[3]

[1] Laws of the United States, 41st Congress, second session, chap. cclvi. By a later amendment the authorized issue was raised to $2,000,000,000.

[2] Laws of the United States, 43d Congress, second session, chap. xv, January 14, 1875.

[3] The power to sell bonds for redemption purposes on future occasions of necessity was publicly asserted by the administration in 1879 and 1880, and was never

Nothing as yet is said in any of these statutes regarding the amount or character of the redemption fund. In recent years the "hundred-million gold reserve" has become the most familiar term in American finance. So long as the Treasury's surplus gold fund has held above $100,000,000, the public mind has been generally easy; when the gold has fallen below that level, misgivings and market disturbances have at once begun. Every recent bond issue, moreover, has been plainly so contrived as to restore an impaired reserve to the neighborhood of this arbitrary sum. One hundred million dollars gold, then, has not only been what Bagehot aptly called the "apprehension minimum," but it has plainly been accepted for a legal minimum as well. Let us see how this limit was determined.

In 1882 the gold reserve for the first time appeared by name in a statute of the government.[1] By its title a national-

disputed. Secretary Sherman wrote officially: "It would be only in an emergency not easy to foresee, and not likely to arise, that the power to sell bonds for redemption purposes would be exercised, but it should be preserved." Annual Treasury Report, 1879. And again, a year later: "In a supreme emergency, the power granted to sell bonds will supply any possible deficiency." Annual Treasury Report, 1880. In 1892 the question was expressly referred by the House of Representatives to its judiciary committee. The majority and minority of this committee differed in their reports on the question of a gold reserve. But the majority report says of bond sales: "There is no limitation upon the authority of the Secretary of the Treasury to sell bonds for the purposes of redemption under this act"; and the minority report: "This act contemplated a sale of bonds from time to time in excess of immediate need for redemption purposes, so that an available or reserve fund should be constantly on hand." *Cong. Record*, July 6, 1892.

[1] Secretary Sherman's earnest appeal to Congress, "that by law the resumption fund be specifically defined and set apart," Annual Treasury Report, 1879, received no attention whatever. Four months after resumption, in answer to a resolution of inquiry from the Senate, Mr. Sherman stated that he was carrying in the Treasury $138,000,000 coin, or forty per cent of liabilities — "believed to be the smallest reserve upon which resumption could be prudently commenced and successfully maintained." Of this amount $95,500,000 was gold provided from resumption sale of bonds, "which must, under existing law, be maintained unimpaired for the purpose for which it was created." Letter to the president of the Senate, May 16, 1879. Both these opinions were officially concurred in by Secretary Folger (Annual Treasury Report, 1881) and by Secretary McCulloch (Annual Treasury Report, 1884). It is worth noticing that forty per cent of outstanding United States notes, which in 1879 was $138,000,000, would to-day be $199,000,000. Secretary Foster raised this point three years ago, arguing for an increase in the gold reserve's legal minimum to $125,000,000 (Annual Treasury Report, 1892).

bank charter act, this law in its final paragraph provides for the deposit of gold and silver with the government in exchange for Treasury certificates. This was indeed the act embodying the famous Congressional retort to the efforts of New York City banks to exclude silver certificates from their reserves.[1] But by the irony of fate, often involved in legislative compromise, the very next clause established the "hundred-million gold reserve." "Provided," the act concludes,

that the Secretary of the Treasury shall suspend the issue of such gold certificates whenever the amount of gold coin and gold bullion in the Treasury reserved for the redemption of United States notes falls below $100,000,000.[2]

In the Congressional debate, the purport of this paragraph was clearly recognized.[3] Under its terms, with the gold reserve intact, the certificates, "when received" in payment of public dues, "shall be reissued." The only possible object of a suspension of their issue when the reserve passed below $100,000,000, was to restore that arbitrary sum. It was apparently presumed that if the reserve fund were to sink below $100,000,000, the gold certificates would continue to be received in revenue, and not being reissued, would release a corresponding amount of gold coin pledged against them. When the reserve, eleven years later, actually passed the arbitrary line, a very different state of things ensued. But none the less, the law defined the gold fund's minimum. It was formally so construed in the treasurer's report of 1884, and the rule has been accepted by all subsequent administrations.[4]

[1] This clause reads: "No national bank shall be a member of any clearing-house in which such [silver] certificates shall not be receivable in settlement of clearing-house balances."

[2] Laws of the United States, 47th Congress, first session, chap. ccxc, July 12, 1882.

[3] Discussion of the proper legal minimum for the gold reserve occupied much of the Senate's time. One point raised by the free-silver coinage advocates was that a "mixed reserve" of gold and silver ought to be maintained. A proviso to this effect they failed to introduce.

[4] A thorough and authoritative review of this question was made by the judiciary committee of the House of Representatives, in the report already referred to,

So much for the origin and authority of the "hundred-million gold reserve." It remains, before examining the Treasury operations of 1895, to glance at the intervening period.

II.

The financial history of the United States government since resumption embraces four distinct and separate periods. The first, extending from 1879 to 1883, was marked by swift enhancement of credit and prosperity. During nearly all of these four years there was a continuous increase in government revenue, so much more rapid than increase in expenditure that the Treasury's general surplus greatly expanded.[1] Meantime, so large an inflow of foreign gold followed resumption, and so great was public confidence in the Treasury, that payments of public dues were freely made in the yellow metal.[2] As early as September, 1879, on the ground that gold coin "beyond the needs of the government" had accumulated in the Treasury, Secretary Sherman formally authorized the use of gold in

submitted July 6, 1892. The committee's majority report concludes as follows: "The legal effect of this proviso [in the act of 1882] was, first, to prevent the exchange of legal tenders for gold for the purpose of obtaining gold certificates, and, second, to fix the amount of the redemption fund or reserve fund at not less than $100,000,000 gold coin and gold bullion. . . . That it was the intention of Congress to fix the minimum amount of this reserve fund at $100,000,000 gold and gold bullion, and that it should be maintained at that sum, seems clear from the language of the act." It is worth recalling that this majority report was presented by ex-Judge Culberson of Texas, who was a free-coinage advocate, but a sound jurist, and whose conclusion, therefore, was clearly unbiased. The minority report is a curious rambling document, whose character may be judged from the following legal argument: "It seems to be conceded that no Secretary of the Treasury has kept the proceeds of bonds sold for redemption purposes in any separate box, vault or receptacle."

[1] The government's ordinary revenue and expenditure (excluding receipts from loans and disbursements on the public debt) compare as follows:

Fiscal Year.	*Revenue.*	*Expenditure.*
1879	$272,322,136	$161,619,934
1880	333,526,500	169,090,062
1881	360,782,292	177,142,897
1882	403,525,250	186,904,232

[2] In the twelve months ending November 1, 1880, fifty-seven per cent of customs dues at New York was paid in gold coin (Annual Treasury Report, 1880).

regular disbursements.[1] As late as the close of 1883, the gold surplus in excess of certificates outstanding stood at $155,429,000.

The characteristics of the second period, extending from the beginning of 1883 into 1886, were the heavy cutting down of revenue without reducing expenditure, the occurrence one year of a revenue deficit,[2] and the Treasury's struggle to save itself from being utterly swamped with silver currency. The outside trade revival reached and passed its high level in 1881, the twenty to thirty millions compulsory annual silver coinage continued, and within two years the Treasury had begun to feel discrimination in the currency. In almost all true economic aspects, and in many particular incidents, this period anticipated with remarkable accuracy the symptoms of 1892. Foreign exchange went heavily against us ; the net import of gold was changed to export. Gold payments to the Treasury were replaced by silver payments,[3] and the silver came in faster than it could safely be disbursed. The mere hint by Assistant-Treasurer Acton, that he might resort to the settlement of all his New York balances in silver, sent gold to a speculative premium.[4] Gold was withdrawn from the Treasury reserve in February, 1884, apparently for hoarding.[5] In the first eight months of 1884, the government's surplus gold holdings decreased $39,000,000, while its surplus silver simultaneously increased $21,300,000. The Treasury report that year frankly discussed the possibility of a forced suspension of gold payments.[6] As late as July, 1885, with the gold

[1] Circular to disbursing agents, September 19, 1879.

[2] Fiscal year 1883, when the deficit, after required sinking-fund payment, was $1,299,312.

[3] The following table shows the percentage of customs dues at New York paid in gold and in silver during the last six months of 1883 and 1884 respectively :

	1883.	*1884.*
Gold certificates,	74.1	30.8
Silver certificates,	17.2	35.7

We shall discover this mechanical law again in operation under the treasury-note issues during and after 1890.

[4] *Financial Chronicle*, March 1, 1884. [5] *Ibid.*

[6] Secretary McCulloch wrote : "A panic or an adverse current of exchange might compel the use in ordinary payments by the Treasury of the gold held for

reserve down to $115,000,000, the New York clearing-house banks, as a measure of emergency, offered the Treasury, from their own reserves, $10,000,000 gold in exchange for fractional silver coin.[1]

The third period of our post-resumption history, running from 1886 into 1891, comprised a series of episodes utterly unintelligible to those who do not hold the clue to American government finance. It was introduced by the extremely able financiering which kept the silver out of the Treasury and in permanent circulation.[2] Next followed a heavy surplus revenue,[3] a revival of confidence in the currency, and an enormous increase in the gold reserve. In March, 1888, the Treasury's gold surplus touched $218,818,000 ; in August its total money holdings reached the sum of $330,763,985 — actually one-fourth as much as the total money supply in outside circulation. This was currency contraction by most extraordinary methods. It served, nevertheless, fully and fairly to counteract the influ-

the redemption of the United States notes, or the use of silver and silver certificates in the payment of its gold obligations." Annual Treasury Report, 1884.

[1] This was to be paid *pro rata* by the banks. The actual transfer of gold was about $6,000,000.

[2] Secretary Manning's achievement consisted in cutting down the supply of United States notes of small denominations, and replacing them chiefly by notes for $1000 each. In the two years ending June 30, 1886, $21,620,000 notes for one, two and twenty dollars were thus extinguished, while the supply of $1000 notes increased $18,327,000. This measure at once created a general demand for the smaller silver certificates and for silver dollars. No silver certificates smaller than ten dollars were then authorized, but in its appropriation bill of August 4, 1886, the 49th Congress was induced to authorize the issue of one, two and five-dollar certificates, or the exchange of large certificates for an equal amount in small denominations. These latter are apt to stay in circulation. As a result, silver certificates in the people's hands rose from $88,116,000 in June, 1886, to $142,000,000 in June, 1887, and to $257,102,000 by the middle of 1889. In the same period the Treasury's surplus silver holdings decreased $80,000,000.

[3] The ordinary revenue, expenditure and gold holdings in excess of outstanding certificates, at the end of the fiscal years, was as follows:

	Revenue.	*Expenditure.*	*Gold Reserve.*
1885	$323,690,706	$208,840,678	$120,298,895
1886	336,439,727	191,902,992	156,793,749
1887	371,403,277	220,190,602	186,875,669
1888	379,266,074	214,938,951	193,866,247
1889	387,050,058	240,995,131	186,711,560
1890	403,080,982	261,637,202	190,232,405

ence of continuous expansion. Meantime, however, the cry arose from every money market to "reduce the surplus," presently followed by the Treasury's enormous purchases, at from five to twenty-seven per cent premium, of the government's own unmatured obligations.[1] This brief career of seemingly boundless wealth, swiftly followed by almost complete collapse of Treasury resources, has but one precedent in history, and the precedent is our own, namely, the vote of Congress, in 1836, to dissipate the surplus by "deposit" of $37,000,000 with the states, the Treasury's payment, prior to April, 1837, of $28,101,644, and its issue of $10,000,000 bonds, exactly five months later, to avert government bankruptcy.

III.

The fourth period of the history we are following began in 1890, and brings us down to the present time. Its characteristics have been violent reduction in revenue, enormous increase in government expenditure, a Treasury saved from actual bankruptcy only through the loan market,[2] but foremost of all, the shifting upon the Treasury of the entire burden of supplying the large gold export drain, and the consequent break-down of the gold reserve. These extraordinary results were closely connected with three acts of legislation by the 51st Congress. In July, 1890, was passed a revenue-reducing statute, unparalleled in history for wholesale violence. It was accom-

[1] Bond purchases began April 17, 1888, and ceased formally in April, 1891, the expenditures in excess of regular sinking-fund appropriations being as follows:

Fiscal year 1888	$31,990,326
" " 1889	90,456,172
" " 1890	76,771,898
" " 1891	63,334,534
Total bond purchases	$262,552,930

[2] The three bond sales of February, 1894, November, 1894, and February, 1895, though primarily designed to restore the gold reserve, brought to the Treasury $179,421,252 additional money. Yet such was the deficit in revenue that in September, 1895, after all payments had been made on the bond subscription, the Treasury's total available surplus holdings of all kinds of money were only $181,180,094.

panied by a deliberate and equally unprecedented increase in government expenses.[1] The same month brought executive sanction to a new currency statute that was also a novelty in legislation. This so-called Silver-Purchase Law involved the addition of something like $50,000,000 annually to the government's outstanding and redeemable notes. Such, then, was the situation of the United States at the close of 1891. The flow of currency into the government's vaults, which artificially checked the embarrassments of 1885, was totally reversed. Even the active industrial movement which absorbed the circulating currency of 1888 had ceased;[2] and an arbitrary annual increase of eleven per cent in circulating medium was now going on, in the face of a shrinkage of ten per cent in the commercial use of money.[3]

Under such circumstances it would seem, *prima facie*, that specie export to other foreign markets was the most natural result conceivable. There were, however, some facts connected with the gold export movement which still in many minds give weight to an opposite contention. In the first place, the usual minimum of exchange at which gold may be profitably shipped is $4.89 to the pound sterling, whereas all of the gold exports in 1891 and 1892 were arranged with sterling at or below $4.88½.[4] In the second place, it was known that the Austrian

[1] This is the official record:

Fiscal Year.	*1890.*	*1892.*
Net ordinary revenue	$403,080,982	$354,937,784
Net ordinary expenditure . . .	261,637,202	321,645,214

But in 1892 there was a charge to be met, in addition to the above, of $23,378,116 for interest on the public debt; also a regular charge, under the sinking-fund law, of $49,063,114, only three-fourths of which the secretary paid.

[2] The failure of Baring Brothers and the simultaneous reaction in the English and American credit movement occurred less than four months after the enactment of the Silver-Purchase Law.

[3] Aggregate exchanges at all the leading clearing houses in the United States, during the first six months of 1891, were $27,033,823,268, against $30,151,200,432 in the same months of 1890. (*Financial Chronicle's* returns.) Such figures are, of course, the most accurate index possible to the use of money in current trade.

[4] Official statement by director of the United States Mint, 1892; verified by market quotations of the time. Large gold shipments were made in 1891 with actual rates for demand bills at $4.87 to $4.87½.

government, having decided early in 1892 on resumption of specie payments, had contracted with a European banking syndicate for the necessary gold.[1] The inference has been drawn, therefore, that the gold movement from this country was forced and unnatural. Since much of our subsequent discussion hangs on the truth or falsity of this theory, I propose to investigate it.

To begin with, a substantial part of our exported gold did go to Austria.[2] The Vienna bankers were undoubtedly making an effort to attract the gold already moving from our ports, and it may be that at times a small commission premium was paid, directly or indirectly, sufficient to cover a slight apparent loss in the market for exchange.[3] Such a premium was at least made possible through the profits of the Austrian contract. Every one knows that this was the nature of our own government's gold import in 1895; exactly the same arrangement was

[1] The original syndicate comprised the house of Rothschild, the Hungarian Credit-Anstalt, the Austrian Credit-Anstalt, the Union Bank of Vienna, the Vienna Banking Company and the Berlin Disconto-Gesellschaft. Its object was the conversion of all paper and silver loans outstanding at five and six per cent, into four per cent gold loans, and the resumption of specie payments on notes and exchequer bills to the amount of 411,994,132 florins ($147,084,000). The act gave authority to the finance ministers of Austria and Hungary to raise new gold loans for redemption purposes of 262,000,000 florins ($126,284,000). The bills, however, were not introduced in the Austrian Parliament until early in 1892; their reading was completed May 28, and their formal enactment took place only August 18, 1892.

[2] From an official Austrian report it appears that of the 100,000,000 crowns in gold ($20,300,000) brought to Vienna against the loan of 1893, 59,000,000 crowns value was in American eagles. But American gold also went largely to Austria before 1893. During 1892 the course of New York exchange was watched with deep personal interest by Vienna bankers. News of our currency operations, and comments on the subject by our government authorities, had immediate influence on the Vienna Stock Exchange. See Vienna correspondence London *Economist*, December 13, 1892.

[3] No direct premium was bid for American coin, however, either by the Austrian government or by the syndicate. This statement is emphatically made by Gustav von Mauthner, director of the Austrian Credit-Anstalt and manager of the syndicate's gold operations, in a very interesting article published in the *Neue Freie Presse* in May, 1893. Herr von Mauthner, answering the assertion that the syndicate was artificially drawing away gold from the United States, declares that the bankers purchased no gold anywhere until after January, 1893, that the only actual premium bid was made in March, and that this was for gold bars, which the United States was not exporting.

made in our preparations for the resumption of 1879.[1] But the syndicate of 1892, like those of 1878 and 1895, had to discover where the gold could be best obtained. This was a business question. A good deal of the gold was drawn directly from Paris and Berlin. A part, also, was obtained in London.[2] But it was the syndicate's desire to draw only such gold as was "in motion";[3] that is to say, gold which was already being exported in the regular way of trade. The reason for such preference is simple. Gold moving thus is surplus money, and no money market will be disturbed by its withdrawal. Now it was perfectly evident, to foreigners at least,[4] that gold was being expelled by the laws of trade from the United States. The outflow had begun long before Austria was in the market. The only special problem of the bankers was, how to make sure that as much of the American export as was needed should be directed to Vienna. The natural course of the movement, guided by relative demands of trade, was from the United States to France.[5] To divert the already moving stream of specie to Vienna, was undoubtedly the purpose of the sales of exchange, by the syndicate's New York agents, at a rate slightly below the normal gold-exporting point.

But let us go one step further and study the actual mechanism of the operations. If the gold shipments were artificial, the high rates of exchange which made them possible must

[1] Upwards of a million gold, for instance, was imported during one month in the autumn of 1878, when demand sterling was between $4.87 and $4.88, or far above the importing point, and when there was virtually no market premium on gold. Both the Morrill and the Sherman contract paid one-half of one per cent commission on all bonds floated, besides allowing any incidental profit on an advance in price when the bankers marketed the bonds.

[2] One-fifth of the gold delivered under the contract of 1893 was in sovereigns, one-fifth in twenty-franc pieces, one-eighth in twenty-mark pieces.

[3] Von Mauthner in *Neue Freie Presse.*

[4] See the *Économiste Français* and London *Economist* during the period; especially the *Economist's* Vienna correspondence of August 8, August 15 and October 7, 1893.

[5] More of our coin actually did go to Paris, and stay there, than went to Vienna. Our imports of United States coin during the panic of 1893, and probably the greater part of the syndicate imports of 1895, were obtained at the Bank of France.

have been artificial too. If the Austrian syndicate forced the one, it must have forced the other. Later experience proved that with a decline in New York sterling rates, even the Austrian agents could not draw.[1] Now the only way in which high prices can be forced, in foreign exchange or in any other market, is through buying. But the gold-shippers, by the nature of the case, were sellers. A New York banker who exports gold must pay for it by a draft on its foreign consignee, exactly as if he exported wheat or cotton, and he must sell the draft to an American remitter. These are the elementary principles of international exchange. But if the gold-exporters were sellers of exchange, their operations unquestionably tended towards the depression of sterling rates. Men who stand publicly in an open market for nine consecutive months as daily sellers, and who never buy, are not ordinarily accused of fostering high prices. Censure, if it arises, commonly bases itself on an inference exactly opposite. The really remarkable fact is that although $33,000,000 worth of "gold bills" were sold at New York during the first half of 1892, in June exchange was higher than in January. During April, 1893, with the gold-exporters selling $5,000,000 exchange per week, demand rates rose from $4.88 to $4.90. Such a phenomenon cannot be explained except by the assumption that some economic force of enormous power was driving the sterling market upward. I shall have written to little purpose if any reader doubts what this propelling agency actually was.

The destination and nature of the heavy exports were, then, matters of little consequence. If the German bankers had not shipped with sterling at $4.88, there can be no doubt whatever that rates would have risen to $4.89, at which the standard commercial firms would have become exporters. The experience of 1895 has proved this finally. But another turn in events which now developed had far more serious meaning

[1] The break in exchange at New York during the panic of 1893 completely upset the plans of the Austrian syndicate. Bankers who had contracted to deliver gold to them were forced into the French and German markets, where they had to bid a high premium for gold bars. Von Mauthner; also *Economist's* Berlin correspondence, 1893.

Until 1892, all gold taken for export from the Treasury was paid for in gold certificates. Such a transaction of course made no reduction in the Treasury's gold reserve, which is computed by deducting from aggregate gold holdings the certificates outstanding. At the close of 1892 the United States Treasurer wrote :

No legal tender notes, in any considerable amounts were presented during this period for redemption. . . . But with the beginning of July [1892] an altogether different condition of things set in. On the first day of the month three millions in gold was taken for export, for which the Treasury received two and a half millions in United States notes and Treasury notes, and only half a million in gold certificates. Of the ten millions in round numbers exported in the month, four millions was paid for in United States notes, four millions and a half in Treasury notes, and only a million and a half in gold certificates.[1]

It was not long before the use of gold certificates in payment for export gold ceased altogether.

The effect of this new policy on the Treasury's gold reserve was decided and disastrous. From October, 1891, to September, 1893, inclusive, exports of gold footed up $154,256,615. During the same period $60,400,287 United States notes and $52,171,860 treasury notes of 1890 were presented for redemption; so that $112,572,147 of the total exports were met by withdrawals from the Treasury.[2] But for the fact that the use of gold in revenue payments was still at times considerable, this drain two years ago would have exhausted the reserve.

[1] Report of Treasurer Nebeker, 1892.

[2] Report of United States Treasurer, 1893. This report contains also the following interesting table of redemptions of legal-tender notes in gold, by fiscal years ending June 30 :

1879	$7,976,698	1884	$590,000	1889	$730,143
1880	3,780,638	1885	2,222,000	1890	732,386
1881	271,750	1886	6,893,699	1891	5,986,070
1882	40,000	1887	4,224,073	1892	9,125,843
1883	75,000	1888	692,596	1893	102,100,345

It will be seen that presentation of legal tenders for redemption in gold was not wholly a novelty in 1892.

There has never been any thorough examination of this episode. It will be useful, therefore, to inquire the cause and meaning of so radical a change of policy. If gold was exported in 1891 without drawing on the Treasury reserve, why was it not obtained outside the Treasury in 1892? The sterling banker, in the first place, draws habitually on his London correspondent to supply remittances for American importers who have foreign debts to pay. To "cover" his own draft on the London house, when ordinary trade bills are not obtainable, he exports gold. If at such times the importer did not have the gold-shipper's draft with which to pay his foreign creditors, he would be forced to export gold himself. Something not wholly unlike this took place in 1895.

The merchandise importers who buy the banker's drafts pay him in checks on New York banks. These checks the sterling banker turns over to his own bank of deposit, and asks for gold against them. It is extremely improbable that he himself will have the gold on hand. During the month of June, 1892, for instance, one New York house exported, against its sterling drafts, $7,000,000 gold. No firm of private bankers maintains in cash a sum of any such magnitude. But neither did any single bank in New York City, at the opening of 1892, hold in reserve as much as $7,000,000 gold. What happened, prior to 1892, was exactly this. The gold-exporter's bank, receiving on his deposit the merchants' checks drawn upon other local institutions, would pass them through the clearing house next day. A heavy credit balance to the gold-exporter's bank was thus created, which the several debtor banks had to meet in cash. Now if such balances were paid in gold or in gold certificates, the foreign settlement was easily provided. The sterling banker had in effect drawn on the aggregate gold reserve of the New York Associated Banks. This was his expectation, up to 1892.

But suppose the clearing-house balances are not discharged in gold. The depositary bank alone cannot long continue to provide gold for its depositor. At best its individual reserve of gold, with exchange at shipping rates, would meet the

export needs of only a week or two. Then it must offer notes. But notes cannot be used by the sterling banker to meet his foreign debit. This was precisely the situation of 1892. It is the situation which arises repeatedly abroad. In London it is the commonplace of financiering for the gold-exporter to carry notes to the Bank of England for redemption. The New York gold-exporters of 1892 followed the London practice, and tendered the notes for redemption at the Sub-treasury.

This fact does not, however, explain the admitted change in policy. The gold-exporters resorted to the Treasury in 1892 because the clearing-house banks had ceased to pay the bulk of their mutual balances in gold. But why had such payments ceased? The answer, like that to every other question evoked by recent currency disturbances, throws us back on the law of 1890. Before the treasury-note inflation, gold was the natural money of exchange between the New York banks. The paper currency was needed for interior remittances and for local retail trade, and it was not then in excessive supply. The Eastern banks, therefore, were virtually compelled to discharge their clearing-house balances in gold, which they could not readily ship West, or in gold certificates of large denominations. But the wholesale issue of Treasury notes completely upset this trade adjustment. Interior institutions were now supplied with currency in great excess of need for their own transactions. Instead of drawing legal tenders from New York, they shipped their own idle currency holdings East. The stock of legal tenders reported in New York bank reserves in the middle of 1890 was $30,975,000; in the middle of 1892 it was $60,000,000. Since this supply of legal tenders, under the Silver-Purchase Law, was inexhaustible, the banks followed a perfectly logical trade instinct in using them for payments. During the twelve months ending with September, 1890, the proportion of legal tenders paid in clearing-house balances was one per cent; in 1891 it was 35.1 per cent; in 1892 it was 57½ per cent.[1] Exactly the same

[1] Annual reports of the New York clearing house. Following are the figures of balances paid during several clearing-house years ending October 1:

phenomenon was visible in New York customs payments to the Treasury.[1] With this in mind, it is simple folly to talk of a "raid" upon the Treasury. Had the dealers in exchange not applied to the government for note redemption, they must either have bid a premium for gold, thereby publicly discrediting the currency, or else defaulted on their obligations. Nor is it any less frivolous to argue, as some respectable critics argue even now, that the banks ought to resume the practice of supplying gold for export. If such advice had been followed in 1892, and the banks, by some unusual personal agreement, had combined to continue providing gold for export, the shippers in the end would equally have been forced back upon the Treasury. For the New York Associated Banks held at the opening of July, 1892, $91,600,000 specie, including silver, and the gold exports from New York, during the next twelve months alone, were $93,000,000.

On April 22, 1893, the gold expulsion having been continuous, the Treasury's gold reserve fell, for the first time since resumption, below $100,000,000. The record of the ensuing twenty-one months is an exasperating chapter in our history. This period of uncertain makeshifts, private dread and official groping began with the indirect appeal of the nation's finance minister for the banks to give up gold for notes. In view of the circumstances already noticed, it is not strange that this proposition met with limited success. Something like $15,000,000 gold was advanced by scattered institutions, and was immediately engulfed in the specie exports. On the vicissitudes of the panic year we need not linger. Its one

	Gold Coin and Certificates.	*Treasury Notes.*	*Legal Tender Certificates.*	*Legal Tenders and Minor Coin.*
1890	$1,735,316,000	$6,914,000	$4,995,000	$5,815,145
1891	1,028,443,000	102,435,000	353,510,000	100,247,500
1892	791,022,000	357,971,000	483,350,000	229,157,000
1893	168,628,000	584,613,000	188,120,000	525,063,000
1894	244,261,000	362,301,000	238,200,000	552,360,000
1895	1,415,000	15,436,000	1,009,405,000	870,318,349

[1] In 1889 the percentage of gold certificates in these payments averaged above 85. In 1890 the percentage ran up to 95¾, while payment in legal tenders averaged below three per cent. In June, 1892, only eight per cent was paid in gold, 26⅞ per cent in United States notes, and 49 per cent in treasury notes.

essential incident was the repeal of the currency law of 1890. Repeal stopped further currency inflation, but it could not undo the mischief of the past. Hence it had only temporary effect. At the close of 1893, with the gold reserve at $80,000,000, Secretary Carlisle intimated the administration's purpose to fulfill the law of 1875. In February and November, 1894, two issues of five per cents for $50,000,000 each were sold to the New York banks. The experiment failed, however, to maintain the gold reserve, for reasons which we shall see were entirely logical. Midway between these two loans of gold at five per cent, the same New York bank subscribers were induced to lend the government $5,000,000 gold for nothing. In the one case the government borrowed on its bonds; in the other on its non-interest-bearing notes. Designed as it undoubtedly was for the public good, this mixture of gifts and bargains was most extraordinary. The performance was repeated as lately as the present autumn (1895), when the banks again were prodded up to turn over gold for notes. The whole series of "reimbursements" was as loyal in its motive, as foolish in its economy and as utterly fruitless in its net results, as the fabled tender of British family plate to Pitt's embarrassed government a hundred years ago.

The failure of 1894's two bond issues to sustain the Treasury was due to the fact that they hardly touched the real root of the evil. Had the use of money in interior trade been active, it is probable that the withdrawal from the money market of $58,660,917 in February and of $58,444,900 in November would have created a perceptible void in circulation, contracted the discount market, raised the money rate and checked the demand for export gold. If only the $117,000,000 realized from the sales had been kept in any form of money in the Treasury, some depression in foreign exchange must have ensued. But trade was at its lowest point of dullness and stagnation since 1884; the surplus reserve of the New York banks, even after the loan of November, stood at $33,000,000;[1] and

[1] After the full payment on the loan of February, 1894, the surplus reserve stood at $74,536,825. Immediately before that payment the surplus reserve was $111,623,000.

the Treasury's continuing deficit threw five millions every month back on the money market. As a consequence, the true cause of the trouble — the enormous relative oversupply of currency — remained operative ; call loans, even during payment for the bonds, remained at one per cent;[1] and with the symptomatic high foreign-exchange rates, gold exports continued.

A possible belief that mere money withdrawals by the Treasury would check the specie exports, and thus protect the gold reserve, is the only apology for one part of the action of the New York institutions. They subscribed, indeed, in full for both the bond issues, and at prices which the open market failed subsequently to maintain.[2] They thus upheld, at their own considerable loss, the credit of the government. But the government bonds were, by law and by common understanding, issued explicitly to keep good the Treasury's gold reserve. It can hardly, therefore, be recalled as a creditable episode in banking, that of the $58,660,917 gold coin paid for the first bond issue, $24,396,459 was obtained by redemption of legal tenders at the Treasury.[3] Tacitly recognizing the character of the January incident, an agreement was required by the organizers of the November syndicate that no gold for this subscription should be taken from the Treasury. And none was so withdrawn; but by a very questionable subterfuge many subscribers to the loan borrowed the coin for payment, largely on gold notes at thirty days, and when the time arrived for settlement of the notes they once more withdrew the requisite specie from the Treasury. In December the Treasury lost by such withdrawals $22,000,000 more gold than was exported.[4]

[1] In the week of payment to the Treasury on account of the February loan, call-money rates in New York went no higher than 1½ per cent, and receded from that to one-half of one per cent. When the November loan was being paid over, three per cent was touched on one day for call money; but 1½ was the average even for that week, and the one per cent rate ruled again almost immediately.

[2] The February issue was taken at or above the price of 117.223, the November issue at the uniform price of 117.077. In January, 1895, these bonds sold at 116½, in May at 115, in October at 116⅛. The whole premium originally paid has never been recovered.

[3] Monetary Systems of the World, by Deputy-Assistant United States Treasurer Muhleman, Historical Appendix. [4] *Ibid.*

These were times when the ordinary rules of sober trade seem to have been forgotten; there was incipient panic.

IV.

We now approach the government's operations in the loan market of 1895. The actual situation with which, at the opening of that year, the government was confronted, must first be summarized. From $111,000,000, after the November loan, the Treasury's gold reserve had fallen by the second week of February to $41,340,181.[1] Every possible measure of relief, based on domestic interests, had been tried in vain; prices were falling rapidly in all the markets, and a suspension of specie payments was discussed as an early probability. Such was the panicky rush of foreign capital for transfer to Europe before the anticipated crash, that sterling exchange advanced above the normal export point, and the weekly gold exports from New York increased during January from $2,350,000 to $7,700,000. A few days more of such gold withdrawals would have forced virtual suspension;[2] another month of them would have exhausted the Treasury's entire reserve.

The government had no card left to play except its foreign credit, and in view of the Treasury's situation and of the failure of the two bond sales of 1894, there was grave doubt whether its credit was not materially impaired. Acting undoubtedly under the spur of critical necessity, a contract was signed on February 8 with the New York representatives of the most powerful domestic and foreign banking interests. The terms of

[1] Daily statement of balances, United States Treasury.

[2] The Treasury actually did fall to a position where it could not, in a possible emergency, have met even the demands of holders of gold certificates. The official daily report of February 11 showed that against $52,579,579 gold certificates outstanding, the Treasury held only $50,934,516 gold coin. It held, of course, a large additional sum in gold bullion, but certificate-holders were entitled to coin. The gold coin in the New York Sub-treasury was reduced on February 2 to $9,700,000. A few days later the Secretary of the Treasury received a telegram from the Assistant United States Treasurer at New York saying that it might not be possible to continue gold payments more than one day longer. — Interview with Assistant Secretary Curtis, published February 25.

this contract were hard,[1] and it was not easy to bring the administration and the bankers to agreement. The situation, however, was too critical to admit of the least delay, and after four days of dispatches between the Treasury and the syndicate representatives, the bargain was closed upon the bankers' terms.

It is not my purpose to discuss either the political aspect or the mere bargain aspect of this operation. It undoubtedly did cut down the quoted credit of the United States, though this was a temporary matter.[2] It is probable that no great fiscal operation in recent history has been so hastily concluded. It was, however, perfectly plain that the administration had no choice but to accept the syndicate's proposition or suspend government specie payments.

There was one clause in the contract which marked a decided line of difference between this bond issue and those of 1894; there was another which was a novelty in finance. The first of these was the proviso that one-half of the coin deliverable should be obtained in and shipped from Europe. The second, on which hung the most interesting of this year's operations, read as follows:

[1] By the terms of the contract the government bought 3,500,000 ounces of gold, the authority for this form of contract being a statute of March 17, 1862, providing that "the Secretary of the Treasury may purchase coin with any of the bonds or notes of the United States, authorized by law, and upon such terms as he may deem most advantageous to the public interest." Revised Statutes, § 3700. The contract price for the gold was $17.80441 per ounce, to be paid for in four per cent bonds for $62,314,435. But as the regular market price of standard gold was $18.60465 per ounce, the actual value to be received in gold was $65,116,275, or a premium of 4.49 per cent over the face value of the bonds. These were thirty-year bonds, and were sold thus at nearly 104½; the outstanding four per cents, with twelve years more to run, sold in open market during the preceding week at 113½. The price on the new issue was equivalent to a net interest rate of 3¾ per cent paid by the government, against a net rate of 2⅞ and 3 per cent paid for the loan of January, 1894. The syndicate made, however, an alternative proposition for three per cent bonds, with stipulated payment in gold, at par. This was referred to Congress, and was rejected by that body.

[2] Although the old four per cents fell from 113½ to 110½ within a month, they recovered all this loss by June. Originally taken at 104½, the new bonds were marketed by the syndicate, eleven days later, at 112¼, which has been the ruling open market price this autumn. The Hungarian four per cents issued in the Austrian operations of 1893 were taken by the syndicate at 92 and sold at 93½.

In consideration of the purchase of such coin, the parties of the second part, and their associates hereunder, . . . will, as far as lies in their power, exert all financial influence and will make all legitimate efforts to protect the Treasury of the United States against the withdrawal of gold pending the complete performance of this contract.

Economically considered, the required delivery of one-half the $65,000,000 gold from European reserves has two very different sides. We have seen that the failure of the loans of 1894 to check gold exports was due chiefly to the fact that the currency, despite withdrawals by the Treasury, continued redundant. From this point of view, therefore, the stipulated addition of $32,500,000 foreign gold to the general currency supply was clearly illogical. Ordinarily governments borrow abroad either because domestic supply is insufficient, or because they do not wish to disturb the domestic money market. But neither motive was present with the United States in 1895. The experience of 1894 had proved both that domestic gold was to be had in sufficient quantity, and that its withdrawal did not appreciably contract the money market. On the other hand, the primary purpose of the loan was to raise gold, and the two loans of 1894 had also proved that although gold could be obtained by the Treasury from American institutions, it would be taken back into the bank reserves through redemption of legal tenders. This was equivalent to saying that gold could not be positively secured on a domestic loan. Theoretically, the banks were equally at liberty to increase their own specie holdings by withdrawal of gold contributed by foreigners; practically such a result was not conceivable. An economic argument on this phase of the question is as difficult as economic discussion of the action of the banks in 1894. The two questions are indeed inseparable. It is safe at least to say that if the withdrawal of Treasury gold pending the loans of 1894 had any justification, it must have been justified by inability of the banks to spare their own. Such a conclusion pointed, as the practical solution, to a foreign loan.

It has been assumed, in some quarters, that half of the issue of 1895 was placed abroad in order to establish a standing foreign credit. Against such credit, it has been inferred, exchange was to be drawn in sufficient quantity to depress the sterling market, supply American remitters, and check exports of gold. This plan was adopted, distinctly for such purpose, during our government's foreign-loan negotiations of 1873,[1] and it was mooted by Secretary Sherman in 1879.[2] Clearly, however, nothing of the kind could have been contemplated by the contract of 1895. The terms of that instrument called for the sale to the government of 3,500,000 ounces of gold, one-half of which was to be "obtained in and shipped from Europe." But this established no foreign credit fund on which to draw exchange. It is when the gold is not imported that sterling bills are drawn. It is true, however, that four months later the contract was modified by mutual consent so that only $14,500,000 gold in all was shipped from Europe. The reason for this modification was that nearly $18,000,000 of the four per cents sold abroad had been resold to the United States. This had not been anticipated, and it was deemed best to assume that foreign gold against the $18,000,000 syndicate subscriptions had been duly imported, and that an equal amount had been reëxported to pay for the American repurchases. It was "cleared," therefore, by the payment to the Treasury of $18,000,000 domestic gold held by the syndicate at New York.[3]

[1] The house of Rothschild received $6,400,000 U. S. bonds that year, "in payment of which they gave a letter of credit. The amounts paid on the same (through sterling drafts sold in New York) were credited thereon until the total amount was extinguished." — Letter of the Treasury agent in London to Secretary Sherman, April 3, 1879.

[2] "Can you suggest any way by which an arrangement can lawfully be made for exchange in London, say to the amount of $10,000,000, in April or May, to be drawn upon if necessary? In case of a considerable shipment of gold, such a resource might be of advantage in preventing popular alarm." — Sherman to Treasury's London agent, March 15, 1879. The agent proposed a repetition of the plan of 1873 — sales of exchange by the Treasury's New York agents, "the proceeds of each bill of exchange sold . . . to be immediately paid into the subtreasury in New York as a receipt on account of the sales of bonds." This experiment was not tried, however, in 1879.

[3] This explanation is official. But it should also be mentioned that a large Austrian order for gold, which was being placed in New York during May, was provided from the syndicate's stock of gold in London.

But by far the most important part of this transaction was based, not on the gold deliveries to the Treasury, but on the very intangible pledge to "exert all financial influence . . . to protect the Treasury . . . against the withdrawal of gold." Let us see what this pledge involved.

Since the gold withdrawals from the Treasury resulted from gold exports, it became the first necessary undertaking of the syndicate to arrest the specie movement. The gold shipments, which had risen in weekly volume by the close of January to $7,700,000, went out because remitters could obtain no exchange drafts except those of gold-exporters. Therefore, the only means of checking further shipments was to supply exchange. In other words, if the syndicate bankers were to offer their own drafts on London at or below the price accepted by gold-exporting houses, and were not to "cover" their own sales by remittances of specie, the needs of American buyers of exchange would be satisfied without a drain upon the Treasury. This is exactly what the bankers did.

But the undertaking was by no means as simple as this description indicates. Sales of exchange are practically contracts to deliver, at a stipulated distant spot and to stipulated parties, a sum of legal money. If the contractor holds a claim on a solvent debtor at that spot, he may order the debt to be discharged through payment to the holder of his contract. This would effect delivery. If the contractor exports gold to his agent at the stipulated place, the contract may quite as readily be discharged. But the market of 1895 was such that New York claims on foreign debtors could not be had in sufficient quantity to meet remitters' needs, and our supposition is that the syndicate was not to "cover" its own sterling drafts in gold. In such a case, the contractor must provide through other sources for his European delivery. He may conceivably hold on deposit, at the spot agreed, the stipulated sum. If not, he must borrow it in that market for delivery. As a matter of practice, this second alternative is invariably adopted.

But how much London borrowing would the syndicate's experiment necessitate? We have seen that even in the

twelve months ending with June, 1893, upwards of $90,000,000 in gold was sent to Europe; which meant that in New York City $90,000,000 bankers' sterling drafts had been absorbed at high prices to supply remitters' needs. Under the strain of providing gold for this the national Treasury had broken down; a private banking syndicate could hardly accept the chance indifferently. Nor could any banking firm or combination of banking firms borrow $90,000,000 on their note for delivery in London.[1]

The syndicate's calculation was, however, that so enormous a transfer of capital would not be called for. Only on such assumption was their undertaking rational. Much of the heavy demand for exchange on London in 1893 and in the ensuing year had its basis in the unwillingness of foreign creditors to leave their funds in the United States, with government insolvency impending. The simple terms of the contract of the syndicate would largely check that movement. There was a further possibility. If foreign purchases, whether of American merchandise or of American securities, were to expand beyond the volume of our purchases from Europe, drafts on New York would presently be as hard to get in London as foreign drafts were in New York in January. In such event the syndicate, having control in New York City of the receipts from previous sales of its exchange, could sell through its London representatives, at profitable rates, its own drafts on New York. Every draft thus sold would provide the means of canceling that much of the syndicate's London debt. Eventually, it might be possible thus to discharge the whole.

First, however, a selling price had to be fixed for the syndicate's exchange. In open competition, it was not easy to say what the price would be. If gold shipments were to be

[1] This will explain the reservation in the syndicate's contract to protect the Treasury — "as far as lies in their power." Unusual and indefinite as such a pledge at first appears, it is clear that any more positive engagement would have been Quixotic. In September much excitement was caused on the New York stock market when one of the firms in the syndicate, which had not shipped gold all summer, withdrew $2,500,000 from the Treasury for export. The fact was that the firm's correspondent cabled that its line of London discounts had grown too large and must be "covered."

stopped, the syndicate must sell its bills below the rate at which any competitor could "cover" a sterling draft in exported gold. Now gold had been shipped, within three years, with rates as low as \$4.87½, and there was no certain assurance that this would not occur again. But if the syndicate sold exchange below \$4.87½, and later lost control of the sterling market, it might be forced to buy some one else's foreign drafts to pay its London debt, and the price then ruling might be the maximum of exchange.[1] If the bankers sold several million pounds of sterling drafts at \$4.87, and had to "cover" subsequently at \$4.89, they stood to lose heavily. This was the first embarrassment. It was met by a most extraordinary move.

To insure a market at the highest rates, without fear of lower sales by gold-exporters, the sterling market was first swept absolutely clear of competition. Practically every New York banking house with large foreign connections was admitted to the syndicate. Each of these houses was allotted at low rates a liberal share of the new government loan, the condition of allotment being that which the syndicate imposed upon itself, to ship no gold and to sell no sterling drafts except at highest prices. Here was the first use made by the syndicate managers of their profits. The result was soon apparent in the market for exchange. During the preceding year, American merchants with foreign dues to pay had been able to obtain a gold-exporter's draft on London at \$4.88½ or less. After the syndicate had bound its fellow-bankers, the uniform price for sight sterling was \$4.89 or higher.[2] During July, in fact, the so-called "syndicate rates," which meant the only rates at which drafts were then obtainable, were fixed at a minimum of \$4.90. This was fully one cent in the pound above the point at which drafts on London could be profitably covered by specie shipments. It signified that an American

[1] The effect would, of course, be the same if it were to ship gold at, say \$4.89.

[2] Demand exchange broke to \$4.88 in the week when the contract was announced, but this was a temporary matter. It was largely due to outside sales based on an erroneous notion that the syndicate would be forced to compete with the gold-shippers, and thus to establish lower rates.

importer wishing to settle a trade debt of £100,000 in London, must pay his banker $490,000 for the draft, whereas in 1894, with free competition in exchange and with sales of drafts on London covered in export gold, he had paid no higher than $488,500. In other words, the remitter lost, through the operations of the syndicate, $1500 on every £100,000 remittance.

This fact discloses at once the project's economic weakness. It was to all intents and purposes a forestalling operation. The syndicate had not, strictly speaking, cornered the market for exchange; but it undertook to control the sources of supply and to mark up prices — which is quite equivalent. Such situations commonly regulate themselves. Experience teaches that in market "corners," direct or indirect, the most careful possible control of visible sources of supply has invariably failed to insure success. Some source of supply, able to fill current demand at lower prices, will usually be overlooked; if not, some new source, hitherto unheard of, will be discovered. The action of this economic law, in the face of the syndicate's skillful operations, is the chapter of foremost interest in the experiment of 1895.

The syndicate began, however, with the market under complete control. Gold exports ceased at once,[1] stock-market prices rose and confidence returned — though slowly, for the syndicate's moves were watched with much misgiving. Through February, March and April, the allied bankers met at the regulated price all demands for drafts on London. No gold was withdrawn from the Treasury; the domestic gold due under the contract was paid within three weeks; five millions monthly came to the government by the European steamers, and by June 25 the $100,000,000 reserve was again intact. This was not all. The recovery in confidence affected Europe too. Berlin and London were full of capital seeking remuner-

[1] So sudden was this check that in the week of the contract's promulgation some $7,000,000, which had been withdrawn from the Treasury on Friday and packed for export, was taken off the steamer before it sailed and was returned to the Treasury in exchange for notes.

ative investment; the "Kaffir kings," fresh from the marketing of their African gold-mine shares at enormous premiums, were ready for new fields of speculation, and between the investors and the speculators, a sudden European demand for American securities set in which forced up the scale of values with amazing rapidity. For three weeks during May, every east-bound European steamer, instead of taking gold, carried out shares and bonds of American corporations. A dozen or more American railway companies, whose panic economies had made necessary fresh capital for improvements, sold new bonds at good prices in the foreign markets. From $4.89, the syndicate's minimum, sterling exchange fell to $4.86⅝, or parity. This was a sign that drafts on New York City were in high demand by London debtors, and this demand the syndicate now supplied. It probably then repaid all, or nearly all, of its London borrowings, drawing upon its New York capital. Had not the syndicate stood forth then to supply the needed drafts to Londoners, it is probable that the United States would have imported gold.

The bond syndicate seemed at that moment to have achieved complete success. As a matter of fact, its real perplexities were still before it. The foreign buying ceased almost as suddenly as it had begun. By the time that the syndicate had covered its "short" exchange, sterling rates had advanced again to the former high level. Some of the foreign buyers sold back our securities at the higher prices, and took their profits. Later on, when half of the government four per cents were delivered to the foreign subscribers, large amounts of these securities too were resold to the United States; for the New York price was higher than that of London.[1] But what was most serious of all, the economic law of a disordered currency.

[1] This is always a serious obstacle in the way of permanent relief through foreign loans. It was a source of continual embarrassment to Austria in 1893, when the rise in foreign exchange, previously alluded to, was forced by re-sales to Vienna of the new bonds lately placed in Berlin. It threatened at one time the success of our own resumption of 1879. In 1877 the syndicate was forced to buv United States bonds in the open London market to check their return to New York.

whose penalty Congress had defied and the syndicate for the time had averted, began again to operate. For, let it be observed, the bankers' operations had dealt with symptoms and consequences; they did not and could not touch the cause. More than this, it presently appeared that these operations were serving in some degree to aggravate the evil. The currency was overcharged; money was still heaped up in great excess at New York City. With reviving credit, industrial trade and prices had revived. But neither trade nor prices had yet returned to the level of 1892, and in 1895, as in 1892, two to four millions weekly of interior currency were flowing to New York City. Gold exports, whatever their other evil results, would in a measure have relieved this currency congestion. But no gold was released, the heap of currency grew larger,[1] and as foreign capital no longer found employment, drafts for its transfer back to Europe were in strong demand. Meantime, however, throughout the month of June the syndicate's control of the sterling market remained unbroken, and $4.90 was the minimum price for demand exchange.

But in July something happened which occurs invariably at one stage of a market "corner." I have already said that when all visible sources of supply in such a market are controlled, new sources, in some unexpected quarter, are sure to be discovered. Every New York banker commanding large local and foreign capital had been identified with the syndicate; the motive for such union being undoubtedly as much the wish to help the government as the hope of gain. Indeed, most of the bankers lost eventually through their abandonment of the open market. But with the syndicate houses selling no exchange below $4.90, and with a trade profit in specie shipments to cover sales at $4.89, a New York firm previously

[1] Some effort was apparently made, during the summer, to withhold absolutely from the loan market the syndicate's local capital, accumulated through its sales of sterling. To do this, the money had, of course, to be withdrawn from bank deposits and "locked up," possibly in the vaults of trust companies. There were strong evidences of such a process in the weekly bank statements during July. But this money was released on the return of guarantee funds to the syndicate's bank subscribers, and reappeared on the loan market and in bank reserves.

concerned in the coffee-import trade, but with powerful European connections, entered the market, offered exchange one cent below the syndicate, and shipping gold to make good its sterling drafts, withdrew the specie from the Treasury. The firm's first shipments of gold were apparently undertaken to discharge its own trade debts abroad. But it very soon extended its operations to the drawing of foreign exchange for the benefit of other trade remitters. When this happened, of course the house instantly had the market in its hands. The syndicate held to its former non-competitive exchange rates, and before three months had passed, $34,000,000 of the government gold reserve had gone abroad.

This was in actual fact the end of the syndicate experiment. Throughout August and September, it is true, gold from the reserves of local institutions was paid into the Treasury for notes. The syndicate thus paid over some $16,000,000; other banks contributed $4,000,000 more. But this was purely a voluntary matter; it was the old and patriotic, but utterly illogical, "reimbursement" of 1894, of 1893 and of 1885. Even this makeshift failed to keep pace with the demand for export gold. It was only when the reserve had fallen to $93,000,000, that the autumn movement of interior trade drew off the idle currency surplus at New York, and thus gave local employment to idle foreign capital. Then rates of exchange declined and the specie outflow came to a normal end. Thus the situation stands at this writing.

What, then, is to be our conclusion concerning this remarkable experiment? I have shown that the methods of the syndicate involved theoretically unsound economics, and that in at least one way its operations in exchange indirectly aggravated the evil whose consequences they were intended to avert. We have seen, too, that the distinct undertaking of the syndicate, to prevent export of gold withdrawn from the Treasury, broke down completely before the expiration of the contract. Are we then left to the conclusion that the experiment of 1895 was a failure?

If such a conclusion were justified by the abstract principles of political economy, it certainly would not be warranted by practical common sense. However faulty the theory of the undertaking may have been, the tangible results are of the highest possible value. To have saved the Treasury from imminent insolvency, and to have restored health and activity to private trade and credit, are no small achievements. The truth of the matter is, that political economy resembles all other sciences, in that its principles cannot be applied in practice with perfect rigidity. In every case of obvious disorder, science must discover first the actual cause of trouble, then the proper method of removing it. But because the remedy is discovered, it does not follow that it can instantly be applied. In 1895 the disease and the remedy were plain to the majority of educated minds ; but it was equally plain that the remedy could not immediately be used, and yet the patient could not wait. A quick and powerful palliative was applied, with a double hope: that partial return of economic health would enable the nation better to endure another strain, and that, with lapse of time, returning sanity in legislation would make possible the final cure.

Whether the syndicate experiment has accomplished more than this, is a matter of great doubt. Heavy interior trade at the harvest season has temporarily solved the problem; the drain on the Treasury was stopped mechanically. But this is no assurance that, with the currency inflation left at work, relief will be more than temporary. In this regard, the teaching of our own experience is not cheerful. Increasing trade, as an absorbent of the surplus circulation, will do something to avert renewed embarrassment; an increased surplus in the Treasury would do more.. Conceivably, either might restore permanent prosperity. But 1891 showed for the one, as 1888 showed for the other, that unless the fundamental cause of mischief is taken courageously in hand, the country will probably enjoy only a breathing-space.

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